

## ASX Announcement

15 April 2020

# March 2020 Quarterly Activities & Cash Flow Report

## HIGHLIGHTS

- Rare earth processing - first Technical Services Agreement (TSA) signed with Ucore Rare Metals
- Halls Creek Gold Project - high grade gold drill targets identified
- McIntosh Project – review of exploration data identifies significant potential for “Nova style” magmatic nickel-copper mineralisation
- Specialist rare earth metallurgist, Mr Gavin Beer appointed as Strategic Advisor on Rare Earths
- Budget review results in implementation of various cost savings as a prudent measure in uncertain times

**Hexagon Energy Materials** (“Hexagon” or “The Company”) (ASX: HXG) is pleased to provide a report on its activities and cash flow for the quarter ended 31 March 2020.

Whilst the March Quarter was a challenging period for many companies, Hexagon achieved several significant milestones during the quarter, and continues to advance its RapidSX™ commercialisation strategy, while also progressing its exploration activities in Australia.

Managing Director Mike Rosenstreich commented, *“The COVID-19 pandemic has highlighted to the general public the risks associated with highly concentrated supply chains – whether that’s for toilet paper, medical supplies or, as in our case, for rare earths.”*

*This reinforces our strong belief that the rare earths supply chain is an example of ‘extreme concentration’ with estimates that over 90% of rare earth products are sourced from China. Given the non-substitutable highly strategic importance of rare earths for e-mobility and renewable power as well as military applications and the past history of market manipulation - this supply risk is simply too great and is due for a radical change.*

*We consider that alternative, competitive, rare earth processing and rare earth oxide production options, such as the RapidSX approach to rare earth separation can play a big part in diversifying that supply chain. To work with Hexagon on the assessment and commercialisation opportunities for the rare earth downstream business I’m very pleased to welcome a leading expert on rare earths processing, Mr Gavin Beer, as a Strategic Advisor on Rare Earths.”*

## RARE EARTHS PROCESSING

In February, the Company announced that its North American partner, Innovation Metals Corporation (**IMC**) had signed a Technical Services Agreements (**TSA**) with Ucore Rare Metals (**Ucore**) (TSXV:UCU) (OTCQX:UURAF).

### HEXAGON ENERGY MATERIALS LIMITED

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The purpose of the TSA is to enable Ucore to assess RapidSX for the separation of rare earth element (**REE**) concentrate materials into high-purity REE oxides (**REOs**) from Ucore's flagship Bokan-Dotson Ridge REE Project located in Alaska, USA, and/or other commercially available, U.S. allied-sourced, mixed REE concentrate sources currently under nearer-term consideration for potential utilisation at the company's planned Alaska Strategic Metals Complex in the United States.

The agreement with Ucore resulted from the combined efforts of IMC and Hexagon's North American and Australian management teams. It is anticipated that further TSA's with other downstream REE producers will be signed in the coming months.

Work continues on the CDP development plans, albeit somewhat slowed by COVID-19 impacts. In particular on lodgement of patents, appointment of a front-end engineering and design study manager, further refinements to the separation flow sheet aimed at further reducing costs and technical discussions with potential clients.

To form the joint venture company with IMC Hexagon has to source US\$2.0 million to build out a commercial demonstration plant (**CDP**) for RapidSX separation of REE into high purity REO's. The CDP is a vital step in the commercialisation process as 'clients' utilise it on their feedstock materials to gain capital and operating cost data as well as REO samples to qualify with their offtake partners. Under the Investment Agreement signed with IMC in October 2019, Hexagon has until October 2020 to contribute the US\$2.0 million – though it is focused on procuring those funds as quickly as possible. To that end it is engaged in a variety of discussions with Australian and overseas entities examining different investment structures at either the subsidiary company and/or Hexagon ASX listed company levels. Those negotiations continue notwithstanding COVID-19 restrictions.

## EXPLORATION

Hexagon has two exploration stage projects in the Kimberley region of Western Australia, McIntosh and Halls Creek. Due to the COVID-19 pandemic, Western Australia has declared a State of Emergency and one of the measures to restrict the spread of the virus is to ban intra-state travel for non-essential activities – which includes mineral exploration. Notwithstanding these exceptional circumstances Hexagon has managed to technically advance both projects.

- The Hall's Creek Gold project has been advanced via a geophysical survey and interpretational work.
- The additional understanding linked with the attractive AUD gold price has greatly enhanced the prospectivity and commercial appeal of the project.
- The McIntosh Project work continues to create a greater understanding of the tenement geology with respect to the nickel potential in addition to the graphite resources.

Tropical cyclone activity limits the field season in the Kimberley region to between April and December. Hexagon's chief priority is the safety and well-being of all its stakeholders – in particular its employees and the local communities near which it operates in the Kimberley which are subject to additional travel restrictions due to COVID-19 related biosecurity concerns. The Company is planning exploration programs and remains hopeful of completing certain programs this season subject to the above restrictions and local permissions. The Company acknowledges State initiatives to grant exemptions on tenement expenditure commitments if it is not able to undertake its planned exploration programs during this period.

## ***McIntosh Project***

- Economic potential for “Nova style” magmatic nickel-copper associated with Sally Malay Suite.
- Located immediately along strike of two known economically viable nickel-copper and PGE deposits.
- Historical exploration on Hexagon’s tenure was poorly targeted due to lack of understanding of the current mineralisation model and targeting criteria.
- Existing multi-million dollar virtual database available, including airborne EM data, which has not been interpreted with base metals as a primary focus (EM was flown and interpreted targeting graphite).

The McIntosh Project comprises 16 tenements spanning ~550km<sup>2</sup> in the East Kimberley region of Western Australia. The project area hosts known graphite deposits but more recently the Company has been assessing the project for base metals (nickel-copper) and platinum group element (**PGE**) deposits such as are known to occur in close proximity (Copernicus – copper & nickel and Panton – PGE) to the McIntosh tenements as well as regionally such as Panoramic Resources’ Savannah Nickel Operations (refer Figure 1). Nickel is emerging as a key ‘energy material’ – a vital component for lithium ion battery chemistries and Hexagon notes the significant tenement applications by IGO, to the north and south of the McIntosh tenements exploring for nickel.

There has been no exploration for base metals or PGE on the McIntosh tenements since ~2005 predating recent discoveries based on new mineralisation models and targeting criteria, such as Buxton/IGO’s Merlin Nickel-Copper discovery, which are also located in the Kimberley Region. Certainly, Hexagon’s work to date at the project focused solely on graphite. The project area boasts not only prospective geology but also the high degree of structural complexity that is critical for conduit feeder-style mineralising systems that result in magmatic Ni-Cu-PGE massive sulphide ore bodies.

Base metal and PGE exploration potential is considered high given a more comprehensive understanding of the geology and geophysics, including the known nearby mineralisation at Savannah and Copernicus deposits and the more recent Merlin discovery.

Hexagon is advancing data compilation and targeting work and designing exploration programs for when the area is once again accessible for exploration; post COVID-19 restrictions.

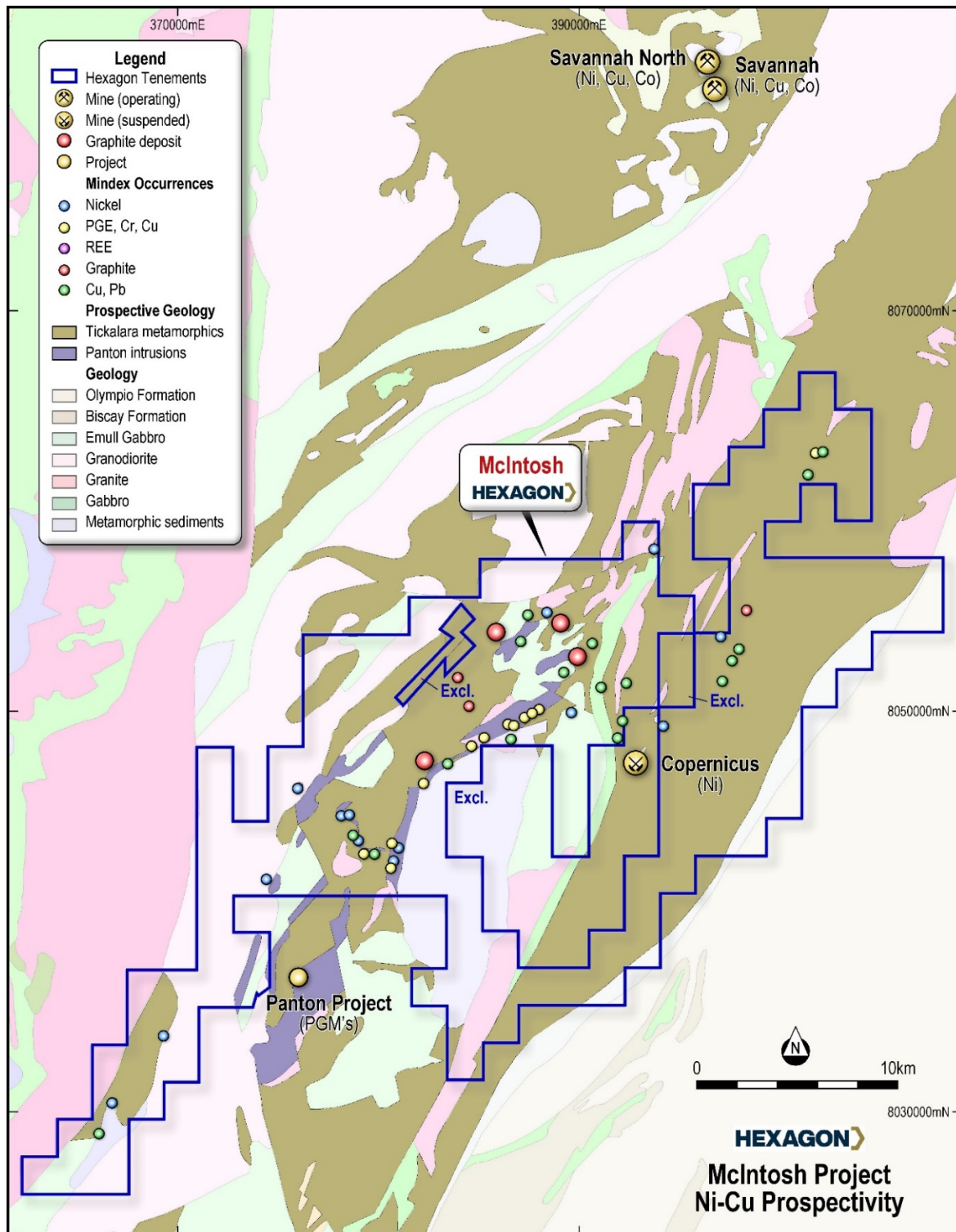
## ***Halls Creek Gold Project***

Geophysical survey and interpretational work conducted at the Halls Creek Gold Project (**HCP**) has greatly enhanced the prospectivity and commercial appeal of the project. The Company has planned a significant exploration program focused on gold, including target definition work and drilling. The Company is considering opportunities to finance, joint venture or ‘spin-out’ the project and has received keen interest from potential investors and partners, a number of who have engaged with the Company to review the data in more detail.

The HCP comprises thirteen granted tenements spanning 657 km<sup>2</sup> which host known gold and base metal surface mineralisation. The recent airborne magnetic survey identified numerous high priority targets prospective for gold and base metal mineralisation (Refer Figure 2).

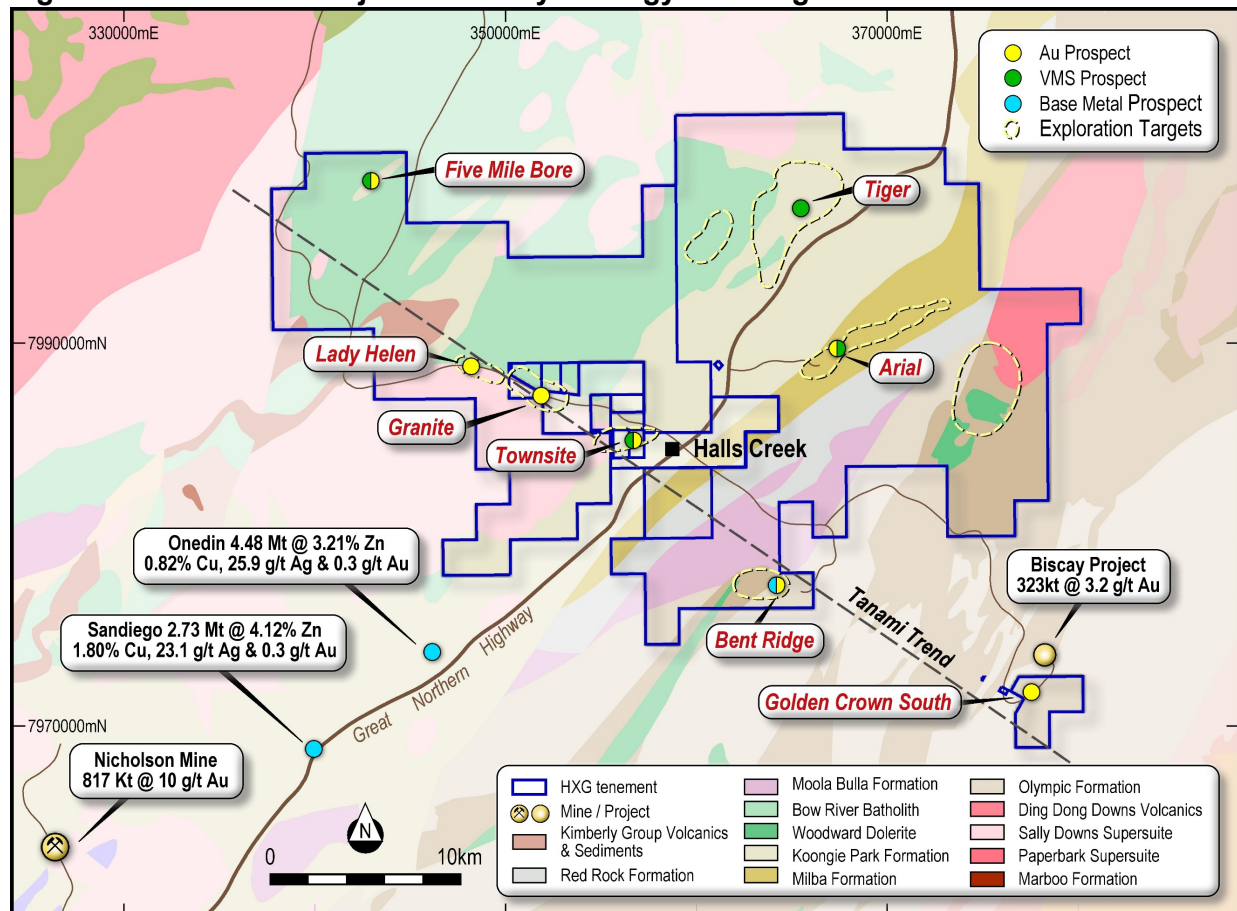
An exploration program focused initially on the high-priority gold targets; Lady Helen, Bent Ridge, Granite and Townsite has been planned in 3 phases culminating in approximately 2,000 metres of drilling for a total expenditure of approximately \$450k. Unfortunately, due to COVID-19 restrictions, this program is currently on hold.

**Figure 1: McIntosh Project Tenements, underlying geology and regional nickel and PGE occurrences**





**Figure 2: Halls Creek Project Summary Geology and Target Locations**



## CORPORATE

As the global COVID-19 pandemic continues to spread, Hexagon has taken necessary and prudent steps to preserve its cash and minimise expenditure. This includes directors, staff and key service providers volunteering to accept significant reductions in fees and wages for the next 6 months.

Given the economic impacts of COVID-19 are likely to persist for a protracted period and access to capital markets is erratic and uncertain the Company is doing everything possible to preserve its cash and reduce expenditure. As stated above, it continues to progress discussions on the funding for the RapidSX CDP. The commercialisation of the RapidSX approach to REE separation remains its primary objective.

### Key Strategic Advisor Appointed

Hexagon is pleased to announce the appointment of Mr Gavin Beer as Strategic Advisor on REE Earths to assist the Company in assessing RapidSX for commercialisation opportunities. Mr Beer is a metallurgist with more than 30 years' experience in technical and operational roles and has spent the past 13 years exclusively working within the rare earth and energy materials sector.

Mr Beer is a Member and Chartered professional of the Australian Institute of Mining and Metallurgy. He is recognised as a Competent Person for JORC and as a Qualified Person

for NI 43-101 with respect to his metallurgical expertise. Mr Beer is globally recognised as a leading metallurgical expert in the rare earth industry.

### **OTCQB Listing**

In the previous quarterly report, the Company indicated its intention to seek a listing on the OTCQB Venture Markets in the US in the March Quarter. This process is well advanced with a sponsoring broker / advisor selected, however, given the current adverse market conditions this plan has been placed on hold until conditions improve: implementation will take only a few weeks once initiated.

### **Financial Position**

A quarterly cash flow and forecast is summarised in the attached Appendix 5B. The Company finished the period with a cash balance of \$1.70 million.

### **COMPETENT PERSONS' ATTRIBUTIONS**

The information within this report that relates to exploration results, Exploration Target estimates and geological data at the McIntosh and Halls Creek Projects is based on information compiled by Ms Cherie Leeden who is a Consultant to the Company and reviewed by Mr Mike Rosenstreich, a full-time employee of the Company. Ms Leeden is a Member of the Australian Institute of Geoscientists and Mr Rosenstreich is a Fellow of the Australian Institute of Mining and Metallurgy. Both, have sufficient experience relevant to the styles of mineralisation and types of deposits under consideration and to the activities currently being undertaken to qualify as a Competent Person(s) as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves and they both consent to the inclusion of this information in the form and context in which it appears in this report.

### **About Hexagon Energy Materials Limited**

Hexagon Energy Materials (Hexagon) (ASX:HXG) is an Australian-listed company which is seeking to commercialise a revolutionary rare-earths elements (**REEs**) processing technology called RapidSX™, which has the potential to disrupt China's monopoly over virtually the entire REE supply chain; from the mine, to separation into REE oxides (**REOs**) to the manufacture of REE permanent magnets (**REPMs**).

REOs are the primary materials for the manufacturing of REPMs which are essential for electric-vehicle motors, consumer electronic products, renewable-energy generation, and a number of military applications.

RapidSX can process REEs faster and cheaper than existing solvent-extraction-based separation processes used in China. RapidSX offers substantial capital and operating cost savings compared to existing and proposed REE producers. Hexagon and its Canadian partner, Innovation Metals Corp. (**IMC**), are developing a Commercial Demonstration Plant (**CDP**) to commercialise the RapidSX REE separation technology. RapidSX was developed and successfully piloted by IMC with more than US\$1.8 million in assistance from the U.S. Department of Defense.

Hexagon's focus is on the downstream processing and transformation of REEs into commercial-grade REOs in North America, with the objective of licensing the RapidSX REE-separation technology to end users around the world. Additionally, Hexagon is developing its US-based downstream graphite-transformation business, focussed on ultra-high-purity battery and advanced-technology applications.

The Company also holds exploration tenure in Western Australia which is highly prospective for graphite and nickel at McIntosh and gold and base metals at Halls Creek.

For more information, please visit [www.hxgenergymaterials.com](http://www.hxgenergymaterials.com).

#### **AUTHORISATION**

This announcement has been authorised by the Managing Director.

#### **FOR FURTHER INFORMATION, please contact:**

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## Appendix 5B

### Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

HEXAGON ENERGY MATERIALS LIMITED
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ABN

27 099 098 192
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Quarter ended ("current quarter")

31 March 2020
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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	(119)	(756)
	(b) development	(190)	(656)
	(c) production	-	-
	(d) staff costs	(80)	(295)
	(e) administration and corporate costs	(221)	(842)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	7	29
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	439	439
1.8	Other (provide details if material)	-	-
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>(164)</b>	<b>(2,081)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) exploration & evaluation (if capitalised)	(71)	(366)
	(e) investments	-	-
	(f) other non-current assets	-	(170)



<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(71)</b>	<b>(536)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	1,839	4,203
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(164)	(2,081)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(71)	(536)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	87	105
4.6	<b>Cash and cash equivalents at end of period</b>	<b>1,691</b>	<b>1,691</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	942	518
5.2	Call deposits	749	1,321
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,691</b>	<b>1,839</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
131
-

6.1 – Includes payments to Managing Director.

## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-
7.5 <b>Unused financing facilities available at quarter end</b>		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
-		

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(164)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(71)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(235)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	1,691
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	1,691
8.7 <b>Estimated quarters of funding available (Item 8.6 divided by Item 8.3)</b>	<b>7.2</b>
8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:	
1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	
3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/A	

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: .....15 April 2020.....

Authorised by: .....By the Board.....  
(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.